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DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION
BUREAU OF PROGRAM OPERATIONS

MEDICAID FINANCIAL HIGHLIGHTS

Vol. 2, No. 3

June 1985

REPORTS
RA
412
.4
M4225
v.2, no.3
(1985:June)

RA
412.4
.M4225
v.2, no.3
(1985:June)

The Medicaid Financial Highlight report reviews current issues and trends in Medicaid financial operations. The Budget Branch of the Division of State Agency Financial Management prepared this highlight. For more information on this report call Dave McNally on FTS 987-1398 or John Lemieux on FTS 934-6876.

ANALYSIS OF TITLE XIX STATE ADMINISTRATION EXPENDITURES FISCAL YEARS 1980 THROUGH 1985

Overview

This Medicaid Financial Highlight report presents an analysis of State administration expenditures for the Medicaid program from FY 1980 through FY 1985. The expenditure data for FYs 1980-84 are compiled from the Form HCFA-64, Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program, while the FY 1985 figures represent budget estimates submitted by the States on the February 15, 1985 submission of the Form HCFA-25, Medicaid Program Budget Report. Effective with the latest revisions to Forms HCFA-25 and HCFA-64, the broad category of expenditures previously titled Administration and Training (A&T) has been renamed simply Administration (ADM), as the separate identification of training-related administrative costs has been discontinued.

Sections 1903(a)(2) through 1903(a)(7) of the Social Security Act authorize Federal financial participation (FFP) in State expenditures the Secretary deems necessary for the proper and efficient administration of the State title XIX plan. The basic categories of costs and corresponding Federal matching rates are:

1. Section 1903(a)(2). - 75 percent FFP for compensation and training of skilled professional medical personnel and staff directly supporting such personnel of the State agency or any other public agency.

2. Section 1903(a)(3)(A) and (B). - 90 percent FFP for design, development or installation, and 75 percent FFP for operation (by the State or a contractor), of approved mechanized claims processing and information retrieval systems (commonly referred to as a Medicaid Management Information System, or MMIS). (Other claims processing systems, if not approved by HCFA as MMISs, qualify only for 50 percent FFP).

3. Section 1903(a)(3)(C). - 75 percent FFP in costs attributable to the performance of medical and utilization reviews by a Peer Review Organization (PRO) under a contract entered into under Section 1902(d). Included are costs incurred under a State contract with a Professional Standards Review Organization (PSRO) or successor PRO.

4. Section 1903(a)(5). - 90 percent FFP in costs attributable to the offering, arranging, and furnishing of family planning services and supplies.

5. Section 1903(a)(7). - 50 percent FFP in the remainder of amounts expended as found necessary by the Secretary for the proper and efficient administration of the State plan. Includes costs associated with such activities as Medicaid eligibility determinations and policy formulation. Also includes training costs of personnel other than skilled professional medical personnel and their direct supporting staff.

National Trends in Medicaid Administration

Chart 1

Chart 1 graphically compares the annual growth rates for administration (ADM) in FYs 1981 through 1985 with the corresponding growth rates for medical assistance payments (MAP) and the State and Local Purchase Deflator (S&LPD), an inflation index which measures price changes in State and local government administration costs. The ADM and MAP rates are based upon the Federal share of net expenditures as reported by the States (excludes Federal adjustments).

- o There does not appear to be a positive correlation between ADM and MAP growth rates. If anything, an inverse relationship between the two growth rates is indicated.

- o Although the ADM growth rate is fairly close to the S&LPD for FY 1981 and 1985, the ADM growth rate has fluctuated wildly in the intervening years while the S&LPD has shown a slow but steady decline.

Chart 2

Chart 2 presents administration expenditures as percentage of total Medicaid expenditures (MAP plus ADM) for FY 1980 through 1985. The percentages are based upon the Federal share of net expenditures reported by the States.

- o Despite the wide variations in ADM and MAP growth rates, the relationship of ADM to total expenditures has been extremely consistent, ranging only from 4.9 percent to 5.4 percent during the 6 years displayed.

- o Wide swings in ADM growth trends have little effect on total program costs because ADM represents such a small segment of total Medicaid expenditures.

Charts 3 and 4

Charts 3 and 4 illustrate the distribution of ADM expenditures among the major categories of administrative activities for FYS 1980 and 1985. The distributions are based upon the Federal share of current expenditures reported by the States.

- o The 3.3 percentage point drop in non-MMIS claims processing costs between FYs 1980 and 1985 corresponds exactly to the percentage increase over that period in the share of ADM accounted for by MMIS expenditures.

- o The relative share of ADM accounted for by costs related to Skilled Professional Medical Personnel has declined 2.5 percentage points since FY 1980 as these costs have not grown as rapidly as overall ADM expenditures. This is in part due to intensive HCFA financial reviews which have resulted in some such costs being reassigned to the 50 percent FFP category.

CHART 1

COMPARATIVE GROWTH RATES: MAP & ADM

FEDERAL SHARE FYS 1981–1985

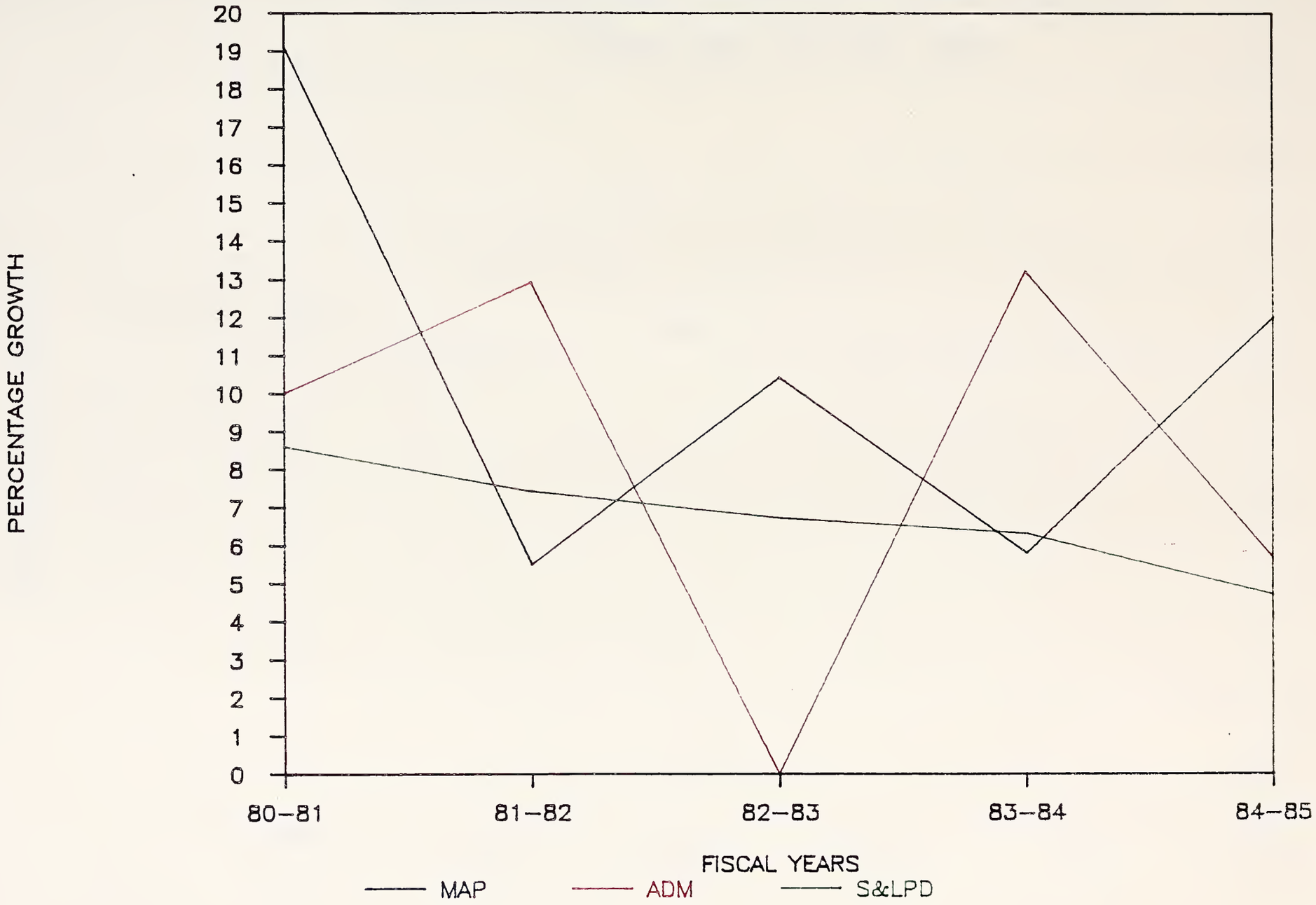


CHART 2

ADMINISTRATION AS PCT OF TOTAL MEDICAID

FEDERAL SHARE FYS 1980 – 1985

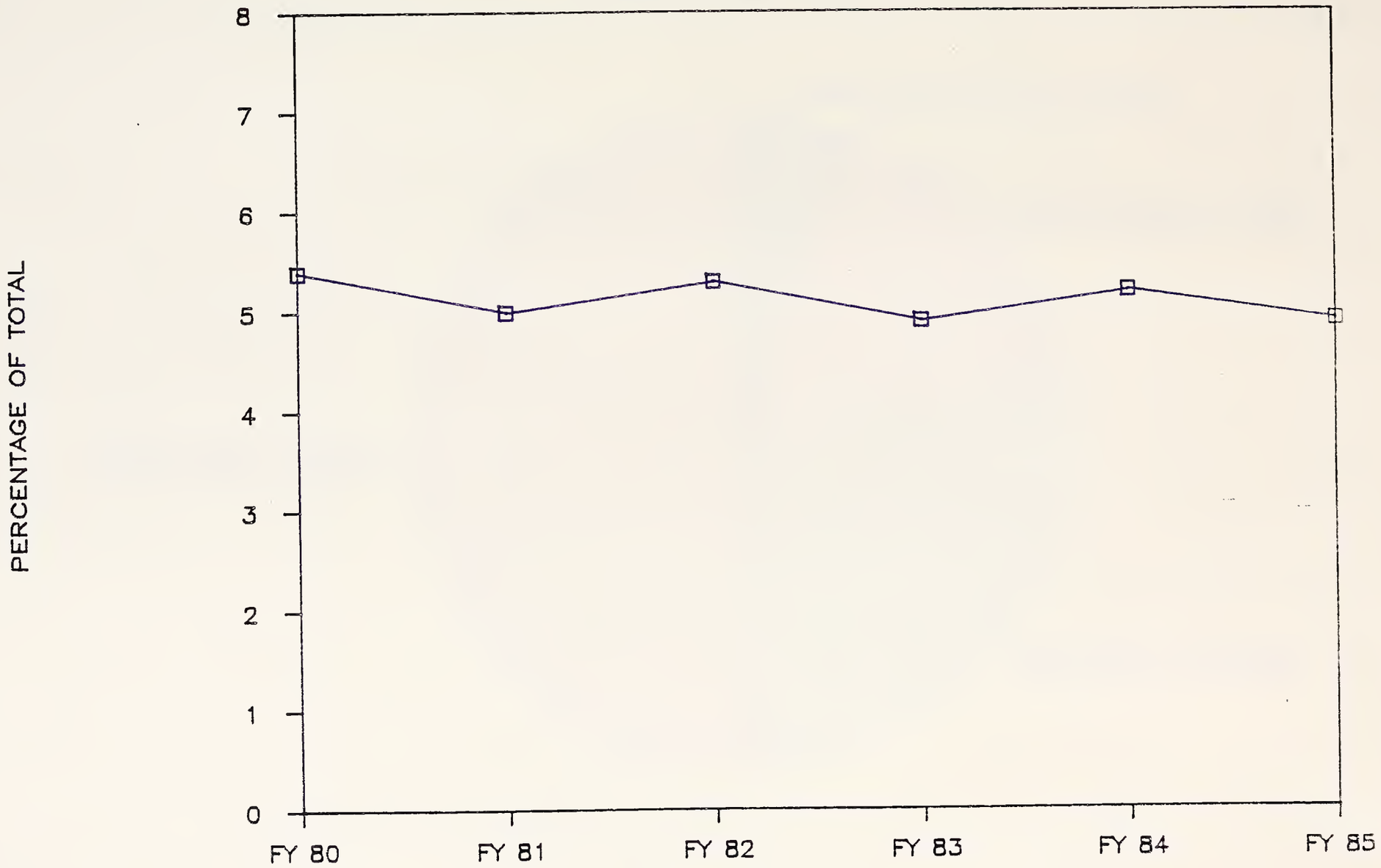


CHART 3

DISTRIBUTION OF ADMINISTRATION FY 1980

$696 MILLION FEDERAL SHARE

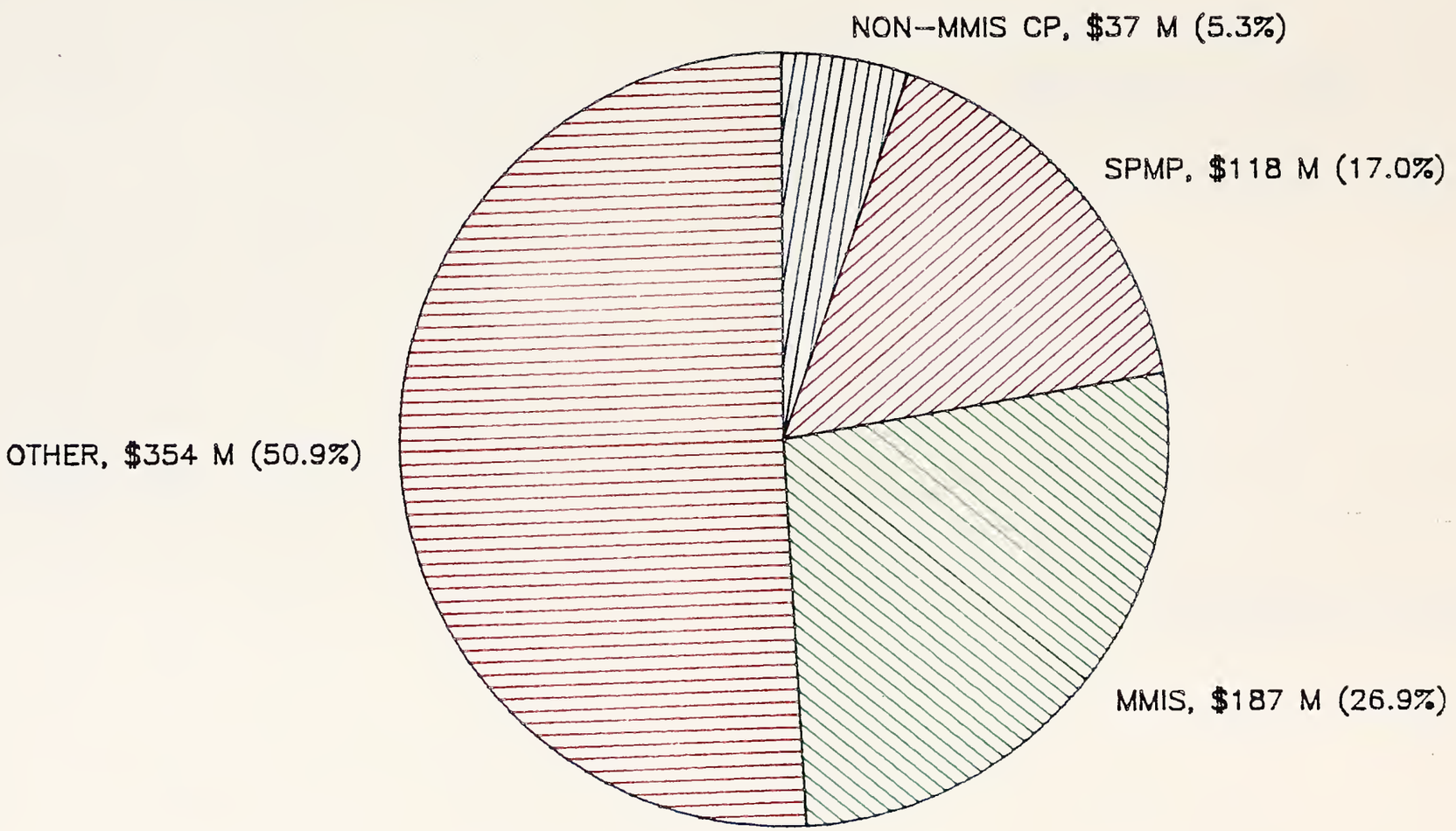
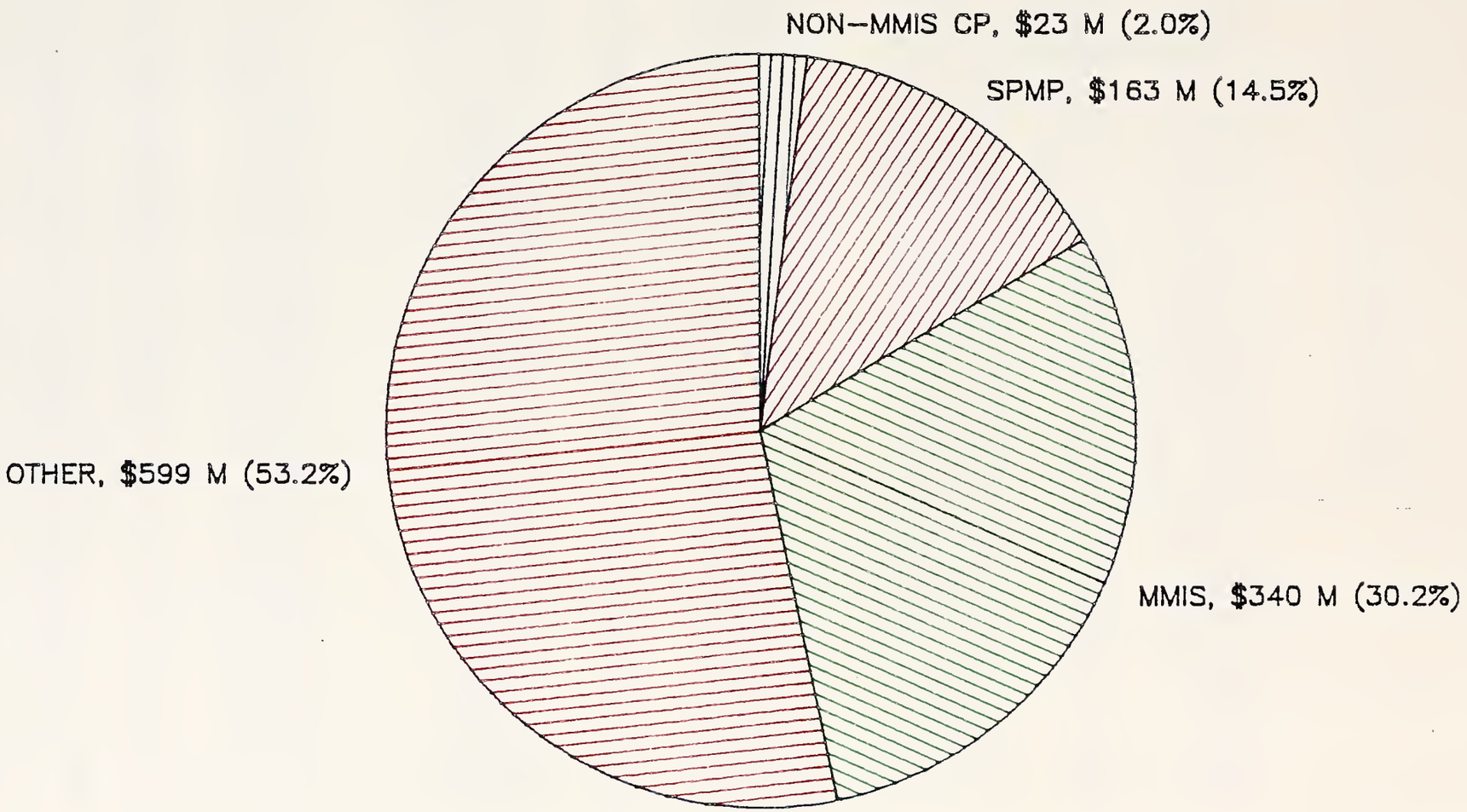


CHART 4

DISTRIBUTION OF ADMINISTRATION FY 1985

$1.125 BILLION FEDERAL SHARE



State-Specific Trends and Rankings

Table 1

Table 1 ranks the States by percentage growth in administration (ADM) expenditures between FYs 1980 and 1985, and displays the corresponding rate of growth in medical assistance payments (MAP) over the same period of time. The percentages are based upon the Federal share of net adjusted expenditures reported by the States.

- Although ADM has grown at a faster rate than MAP in 25 States, national administration expenditures have grown at a lower rate, 48.0 percent, than national MAP totals, 63.8 percent.

- While there is a huge difference between the growth rates of the top 10 and bottom 10 States in terms of percentage, there is very little difference in terms of absolute dollar growth. The top 10 States account for 25 percent of the total dollar growth, and the bottom 10 account for 24 percent.

Table 2

Table 2 ranks the States by effective Federal matching rates for FY 1984 administration expenditures. This table indicates which States are having the highest percentage of their Medicaid administrative costs funded by the Federal government. The matching rates represent the Federal share of net expenditures reported by the States as a percentage of total computable net expenditures.

- The effective matching rates for FY 1984 range from a high of 69.9 percent in Alabama to a low of 50.0 percent in Arizona.

- The national total of 59.1 percent is indicative of the fact that despite the high visibility of MMIS and SPMP activities matched at premium rates, approximately 60 percent of the States' total FY 1984 administration expenditures were reported in the Other category with 50 percent Federal financial participation.

Table 3

Table 3 ranks the States by Medicaid administration expenditures per recipient. The cost per recipient figures represent total computable current expenditures reported by the States divided by the unduplicated number of recipients of service (eligible counts are not available) for FY 1984.

- Six of the top 10 ADM expenditure per recipient States are also in the top 10 when ranked by MAP expenditure per recipient.

- Eight of the top 10 States are not section 1634 States; i.e., they have their own apparatus for determining Medicaid eligibility for SSI recipients.

- The results of HCFA's quality control evaluations of State eligibility determination and claims processing functions indicate that no clear correlation exists between the level of State ADM expenditures and the quality of administration; i.e., high cost States tend to be as error prone as low cost States.

TABLE 1

RANKING OF STATES BY PERCENTAGE GROWTH IN ADMINISTRATION
FY 1980 - FY 1985

	PCT GROWTH * ADM FED SHARE FY 1980-85	RANK	PCT GROWTH * MAP FED SHARE FY 1980-85	RANK
TENNESSEE	189.2 %	1	101.6 %	5
ALASKA	160.7	2	85.8	12
COLORADO	159.0	3	62.9	25
UTAH	146.5	4	92.9	11
VERMONT	145.6	5	47.1	40
HAWAII	119.2	6	43.4	42
PENNSYLVANIA	112.7	7	48.5	38
SOUTH CAROLINA	107.5	8	47.3	39
MASSACHUSETTS DPW	104.9	9	41.3	43
DISTRICT OF COLUMBIA	103.7	10	100.5	7
MAINE	103.2	11	64.5	22
NEW HAMPSHIRE	97.6	12	56.1	31
ARKANSAS	94.1	13	49.0	37
MONTANA	85.6	14	57.0	30
MARYLAND	85.1	15	65.0	21
CONNECTICUT	84.4	16	72.0	15
WEST VIRGINIA	84.1	17	66.3	19
NEW MEXICO	84.0	18	100.7	6
FLORIDA	82.1	19	138.4	1
OREGON	81.7	20	41.2	44
KENTUCKY	77.3	21	74.4	13
ALABAMA	74.4	22	57.4	29
NEW JERSEY	70.9	23	38.2	47
NEVADA	64.1	24	68.0	18
NORTH CAROLINA	63.5	25	63.4	24
MINNESOTA	63.3	26	68.4	17
INDIANA	63.0	27	96.8	9
LOUISIANA	55.7	28	72.9	14
ILLINOIS	53.4	29	25.3	50
WYOMING	52.6	30	93.2	10
VIRGINIA	51.8	31	55.5	32
MISSOURI	47.9	32	71.4	16
OHIO	47.1	33	137.2	2
IOWA	46.0	34	44.8	41
IDAHO	45.8	35	49.9	36
WASHINGTON	45.3	36	60.4	27
KANSAS	45.2	37	21.7	51
NORTH DAKOTA	39.3	38	136.4	4
OKLAHOMA	38.2	39	50.7	35
DELAWARE	38.1	40	64.2	23
TEXAS	36.4	41	51.4	34
NEW YORK	35.4	42	98.6	8
NEBRASKA	32.7	43	39.7	46
GEORGIA	29.8	44	65.1	20
RHODE ISLAND	23.4	45	55.2	33
CALIFORNIA	22.6	46	31.5	49
MASSACHUSETTS BLIND	10.0	47	136.9	3
SOUTH DAKOTA	8.8	48	60.4	28
MICHIGAN	2.7	49	62.7	26
MISSISSIPPI	0.6	50	35.3	48
WISCONSIN	-7.3	51	40.9	45
NATIONAL TOTAL **	48.0 %		63.8 %	

* PERCENTAGE INCREASE IN NET ADJUSTED EXPENDITURES REPORTED BY THE STATES

** EXCLUDING ARIZONA AND TERRITORIES

TABLE 2

RANKING OF STATES BY EFFECTIVE MATCHING RATES FOR ADMINISTRATION
FY 1984

	EFFECTIVE FY 1984 MATCHING RATE *	TOTAL COMPUTABLE ADMINISTRATION	FEDERAL SHARE ADMINISTRATION
ALABAMA	69.9	12,018,249	8,398,471
IDAHO	67.0	4,478,048	3,001,090
NEW JERSEY	66.8	59,931,140	40,031,348
TENNESSEE	66.5	16,627,366	11,063,477
COLORADO	66.0	16,186,741	10,675,378
HAWAII	65.8	7,030,425	4,626,357
WEST VIRGINIA	65.2	9,121,849	5,947,143
FLORIDA	65.1	29,076,381	18,922,282
NEW MEXICO	64.3	7,239,692	4,657,348
UTAH	63.7	14,340,419	9,134,845
VERMONT	63.6	7,128,085	4,531,375
ARKANSAS	62.6	13,807,430	8,649,950
SOUTH DAKOTA	62.6	2,678,709	1,676,088
IOWA	62.1	11,093,260	6,883,400
SOUTH CAROLINA	62.1	14,757,575	9,166,944
MISSISSIPPI	61.6	8,567,921	5,277,409
MONTANA	61.5	4,966,421	3,056,088
WISCONSIN	61.4	30,290,353	18,601,953
TEXAS	61.1	97,234,992	59,381,195
MICHIGAN	60.8	68,260,120	41,522,643
MAINE	60.4	10,410,934	6,293,148
WASHINGTON	60.3	29,499,402	17,801,766
NEW HAMPSHIRE	59.9	5,977,310	3,578,913
KENTUCKY	59.6	21,652,318	12,914,385
GEORGIA	59.4	32,472,193	19,278,802
NORTH DAKOTA	59.3	5,397,004	3,200,854
NEBRASKA	59.2	9,279,627	5,489,479
PENNSYLVANIA	59.2	90,465,248	53,561,949
KANSAS	59.0	11,046,829	6,517,215
CALIFORNIA	58.9	287,717,966	169,393,630
OREGON	58.9	31,527,848	18,571,682
VIRGINIA	58.4	23,049,744	13,452,520
ILLINOIS	58.3	58,530,690	34,144,128
NEW YORK	58.2	392,215,002	228,116,942
LOUISIANA	58.0	24,325,187	14,115,511
INDIANA	57.7	27,450,591	15,846,613
DISTRICT OF COLUMBIA	57.4	15,292,098	8,781,473
OHIO	57.3	49,775,846	28,519,083
DELAWARE	56.8	2,866,833	1,629,054
NORTH CAROLINA	56.7	35,027,851	19,860,384
MISSOURI	56.5	17,144,010	9,690,609
MINNESOTA	56.3	35,408,442	19,926,626
OKLAHOMA	56.2	35,754,557	20,092,735
CONNECTICUT	55.9	24,562,487	13,718,711
NEVADA	54.8	5,180,855	2,840,659
MARYLAND	54.7	27,363,741	14,979,076
ALASKA	54.5	3,238,216	1,764,561
RHODE ISLAND	52.9	6,612,225	3,494,987
WYOMING	52.5	1,009,461	530,297
MASSACHUSETTS DPW	51.8	45,169,765	23,400,072
MASSACHUSETTS BLIND	50.1	1,084,817	543,397
ARIZONA	50.0	5,711,135	2,855,567
TERRITORIES	40.4	7,529,353	3,043,676
NATIONAL TOTAL	59.1	1,814,584,761	1,073,153,288

* LINE 11 FORM HCFA-64, FEDERAL SHARE OF NET EXPENDITURES REPORTED AS A PERCENTAGE OF LINE 11 TOTAL COMPUTABLE

TABLE 3

RANKING OF STATES BY ADMINISTRATION EXPENDITURES PER RECIPIENT
FY 1984

	ADM EXPEND PER RECIPIENT *	RANK	MAP EXPEND PER RECIPIENT *	RANK	UNDUPLICATED RECIPIENTS
OREGON	242	1	1,818	21	129,855
UTAH	203	2	1,941	15	67,238
NEVADA	187	3	2,411	10	27,704
ALASKA	160	4	2,981	3	19,921
NORTH DAKOTA	159	5	2,957	5	33,847
NEW HAMPSHIRE	148	6	2,809	8	39,505
DISTRICT OF COLUMBIA	141	7	2,870	6	106,600
OKLAHOMA	140	8	1,643	34	252,450
NEW YORK	137	9	3,083	2	2,207,674
TEXAS	135	10	2,114	14	713,382
VERMONT	125	11	1,590	37	53,624
IDAHO	116	12	1,727	27	38,654
CONNECTICUT	110	13	2,583	9	45,800
MONTANA	110	13	2,167	13	220,090
NEBRASKA	107	15	1,802	23	86,540
MASSACHUSETTS	102	16	3,201	1	341,174
MINNESOTA	102	16	2,818	7	435,776
NORTH CAROLINA	98	18	1,725	28	357,318
COLORADO	94	19	1,856	18	166,186
INDIANA	92	20	2,373	11	273,189
NEW MEXICO	89	21	1,660	32	81,660
MARYLAND	88	22	1,891	17	305,943
SOUTH DAKOTA	88	22	2,966	4	324,071
WASHINGTON	88	22	1,593	36	30,582
PENNSYLVANIA	86	25	1,677	30	1,068,549
MAINE	85	26	1,738	26	124,592
KANSAS	81	27	1,797	24	136,851
VIRGINIA	79	28	1,836	20	284,309
HAWAII	77	29	1,468	40	91,583
CALIFORNIA	73	30	1,065	48	3,391,547
WYOMING	72	31	1,900	16	13,981
ARKANSAS	71	32	1,838	19	190,279
NEW JERSEY	70	33	1,790	25	588,757
LOUISIANA	64	34	1,804	22	381,169
SOUTH CAROLINA	64	34	1,342	45	227,048
DELAWARE	62	36	1,508	39	45,618
RHODE ISLAND	61	37	2,213	12	107,991
ILLINOIS	56	38	1,704	29	1,200,467
IOWA	56	38	1,667	31	201,955
MICHIGAN	56	38	1,420	43	1,027,936
FLORIDA	52	41	1,433	42	566,571
OHIO	51	42	1,657	33	991,617
TENNESSEE	49	43	1,571	38	185,397
WEST VIRGINIA	49	43	760	51	345,302
WISCONSIN	49	43	1,631	35	579,296
KENTUCKY	48	46	1,100	47	467,682
MISSOURI	48	46	1,452	41	356,753
GEORGIA	44	48	1,410	44	443,400
ALABAMA	39	49	1,199	46	307,767
ARIZONA	34	50	975	50	93,700
MISSISSIPPI	28	51	1,050	49	302,437
NATIONAL TOTAL **	$ 81		$ 1,768		20,081,337

* LINE 6, FORM HCFA-64, TOTAL COMPUTABLE CURRENT EXPENDITURES DIVIDED BY UNDUPLICATED RECIPIENT PROJECTIONS PREPARED BY HCFA OFFICE OF THE ACTUARY BASED ON 2/15/85 FORM HCFA-25 SUBMISSION

** EXCLUDING TERRITORIES

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